LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 6182 **DATE PREPARED:** Feb 11, 1999
BILL NUMBER: HB 1093 **BILL AMENDED:** Feb 10, 1999

SUBJECT: Public pension funds.

FISCAL ANALYST: James Sperlik
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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill makes the following provisions:

1) that the annuity savings account of a member of the Public Employees' Retirement Fund (PERF) or the Teachers' Retirement Fund (TRF) shall be valued as of the valuation date coinciding with or preceding the member's date of retirement for any portion annuitized and shall be valued as of the last valuation date, plus any contributions since that date, for any portion distributed in a lump sum.

2) that the PERF Board and the TRF Board shall suspend a person's fund membership and shall pay the person the annuity savings account if the member has not performed any service in a covered position during the past two years, is not vested, and has a total benefit value of less than $200.

3) for PERF and TRF to pay an estimated retirement benefit to a member under certain circumstances.

4) that after a member's actual retirement benefit is calculated, the fund shall temporarily adjust the member's benefit to reconcile any underpayment or overpayment that resulted from the payment of estimated benefits.

5) that a member of PERF or TRF may designate a new beneficiary under certain circumstances.

6) for a member of PERF or TRF to elect to begin receiving the member's pension benefit but to leave the member's annuity savings account invested until a later date.

7) for continued use of an earnings limit prepared under federal Social Security laws to determine how much a PERF or TRF member who is receiving benefits may earn in a fund-covered position before the member's benefits are suspended and the member is reinstated into active membership, but specifies the time period within which the limit is applied and provides for an automatic suspension of benefits if a member is reemployed within 90 days of retirement.

8) that an employer is required to submit a PERF member's membership records to the PERF board not more than 30 days after the member is hired. It also provides that if an employer does not provide the PERF board with employees' membership records or other reports or payments within 30 days after the records, reports, or payments are due, the PERF board may fine the employer $100 for each day the records, reports, or payments are late.

9) for the Auditor of State to withhold this penalty from money payable by the state to the employer.

10) for certain individuals to claim service credit in PERF if the individuals: (1) were erroneously enrolled in PERF before 1980; (2) made contributions to PERF; and (3) were subsequently denied all or part of the service credit for a position that would otherwise be covered by PERF.

11) for PERF members to purchase service credit at actuarial cost for their prior service in positions covered by the 1925 Fund, the 1937 Fund, or the 1953 Fund if they did not vest in any of those funds.

12) that TRF members may purchase service credit for private school teaching after one year of credited service in TRF. (Current law provides that the private school service credit may be purchased only after the TRF member has ten years of credited service in TRF.)

13) that a TRF member that purchases service credit for private school teaching may not claim the service credit until the member has at least ten years of credited service in TRF. (These changes would make the provisions concerning purchase of private school service credit consistent with provisions concerning the purchase of other forms of service credit.)

14) that private school teaching credit may be claimed for teaching kindergarten through postsecondary school.

15) that a member of TRF to take up to one year of adoption leave.

16) that if a town establishes a police department or becomes a city, the age requirements and physical and mental examination requirements of the 1977 Police Officers and Firefighters Pension Fund do not prohibit a police officer employed by the municipality from becoming a member of the 1977 Fund.

17) that if a member of the 1977 Police Officers and Firefighters Pension Fund requests a hearing concerning a determination of impairment, the local police or firefighter pension board must hold the hearing within 90 days after the member's request and must make a determination within 30 days after the hearing.

18) that members of the Judges' Retirement System may purchase service credit at full actuarial cost for prior service in an Indiana public employees' retirement fund.

19) that for purposes of the 1977 Police Officers and Firefighters Pension Fund provisions concerning line of duty benefits paid to a survivor, the term "line of duty" also includes any action that a fund member, in the member's capacity as a police officer or firefighter, performs: (A) in the course of controlling or reducing crime or enforcing the criminal law; or (B) while on the scene of an emergency run or on the way to or from the scene.

20) provides that a judge who has: (1) served at least six years as a judge; or (2) become permanently disabled may purchase service credit for active military service of the United States to be used in the

computation of benefits for the 1977 or 1985 Judge's Retirement System if the service is not used in the computation for another public or federal retirement system other than Social Security. It provides that the contributions to either Judge's Retirement System are based on: (1) the judge's salary at the time of the contribution; (2) the normal cost at the time of the credit that approximates the actuarial value of the benefit; and (3) the number of years of military service credit to be purchased.

21) provides remuneration for allowances for clothing for police and fireman, to the extent that these amounts exceed $300 per year is to be included in the definition of base salary.

22) provides that the state, through the State Budget Agency, may adopt a defined contribution plan, under Section 401 (a) of the Internal Revenue Code, for the purpose of matching all or a specified portion of state employees’ contributions to the State Employees’ Deferred Compensation Plan.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: June 1, 1998 (retroactive); July 1, 1999.

Explanation of State Expenditures: (Revised) **Parts, 1, 2, 3, 5, and 6** will have no fiscal impact on the Funds.

Part 4 provides that after a member's actual retirement benefit is calculated, the fund shall temporarily adjust the member's benefit to reconcile any underpayment or overpayment that resulted from the payment of estimated benefits. Any impact will depend upon the adjustments made.

Part 7 will have a minimal impact on the Funds. For example, a participant who earns more than the earnings limit would have his/her benefits suspended, thereby creating an experience gain to the Funds (since the rate of rehires is assumed to be zero in the preparation of an actuarial valuation). Furthermore, although a participant may receive a higher benefit after retiring a second time, it would be for a shorter period of time since the participant would have a shorter remaining life span.

Part 10 likely will have a fiscal impact on PERF. However, it will depend upon the number of such individuals and the amount of service claimed. The fund affected is the PERF Employer Reserve Account.

Parts 11 - 14 will have no fiscal impact, since the purchase of service is at full actuarial cost.

Part 15 will have a fiscal impact. Any fiscal impact will depend upon the number of individuals who take the adoption leave, but the cost is likely to be minimal. The fund affected is the State General Fund.

Part 18 will have no fiscal impact, since the purchase of service is at full actuarial cost.

Part 22 is permissive and will depend upon the implementation by the State of the new plan. The Indiana Deferred Compensation Plan reports that currently there are 11,499 participants, or approximately 32% of State employees, in the Plan, with an average bi-weekly deferral of $96. The implementation of this proposal would cost the State approximately $28.7 million per year. The funds affected are the State General Fund 55%, or approximately $15.8 million and various dedicated funds 45%, or $12.9 million. This split represents the percentage that these funds contribute for personal services in the State Budget. It should be noted that the provisions of this proposal may encourage greater participation the Plan. This could increase the cost to the State, depending upon the number of participants and the bi-weekly deferral amount.

The Auditor of State is required to administer the newly created plan. The Auditor of State reports that since they already participate in the Deferred Compensation Plan, there would be no additional cost involved.

Explanation of State Revenues: **Part 8** may generate some revenue for PERF, but the amount is indeterminable.

Part 9 may generate some revenue for PERF, but the amount is indeterminable.

Explanation of Local Expenditures: (Revised) **Part 16** will have no fiscal impact on the 1977 Police Officers and Firefighters Pension Fund.

Part 17 may generate some administrative costs for the 1977 Police Officers and Firefighters Pension Fund, but any costs are likely to be minimal.

Part 19 may increase the costs for the 1977 Police Officers and Firefighters Pension Fund, but the specific impact is indeterminable and will depend upon the number of Fund members who die under the expanded

definition of "line of duty" death and whose survivors would otherwise would not be entitled to the benefit.

Part 20 will have no fiscal impact, since the purchase of service is at full actuarial cost.

Part 21 The fiscal impact of this provision is dependent on the increase which would occur in the pension base of first class salaries. *As an illustration*, one could assume that the salary base may increase, on average, from $31,300 to $31,700 annually ($400 additional due to clothing allowance). This fiscal impact of this illustration would be as follows:

	1925, 1937, 1953 Funds	**Converted 1977 Plan**	**Non-Converted 1977 Plan**
Increase in Actuarial Liabilities	$132 million	$30.6 million	$32.9 million
Increase in Annual Funding	$6.6 million	$0.66 million	21% of payroll (would increase to 23.1%)
Approximate # Members Affected	10,129	2,520	8,360

Pension benefits for police and firefighters are equivalent to 50% of the salary of a first class officer, as defined by each individual city. Cities and towns with members in the affected funds appropriate money from police and fire pension funds. The source of these funds are property taxes, motor vehicle excise taxes, and financial institution taxes.

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF; Judges' Retirement System; Auditor of State.

Local Agencies Affected: School corporations; cities and towns with members in the 1977 Police Officers and Firefighters Pension Fund.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF and the 1977 Police

Officers and Firefighters Pension Fund, 576-1508; Denise Jones of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.